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Romanian Winter crops performing well, Corn sowing delayed slightly

Report Categories:

Agricultural Situation

Grain and Feed

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Report Highlights:

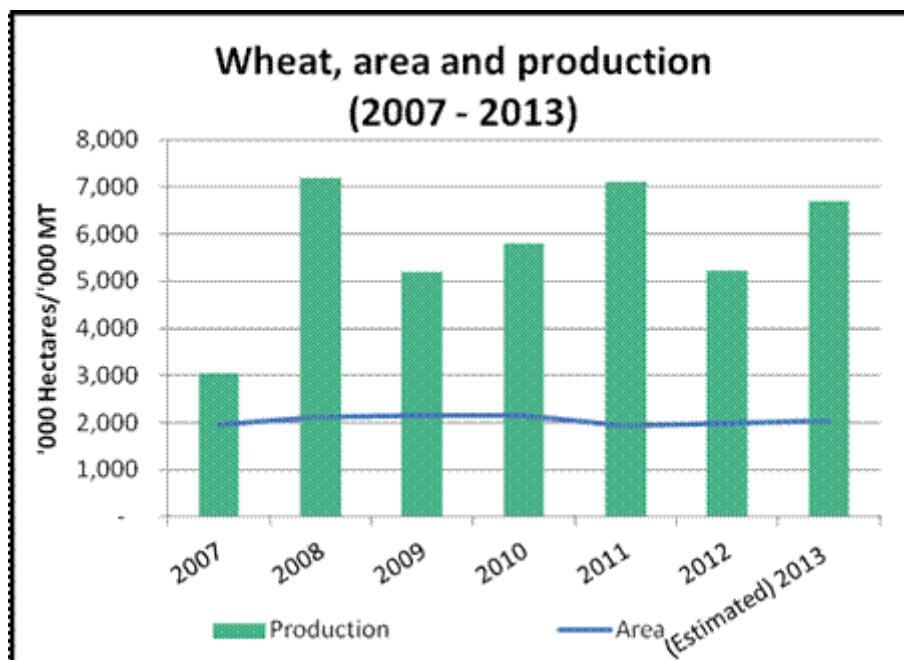
Romanian wheat and barley crops are in good shape, production is expected to increase this year by 22 percent and 19 percent, respectively. Rainfall in recent months which has helped replenish soil moisture reserves severely depleted during the previous crop has also lead to delay in sowing of the 2013 corn crop. Climatic conditions (winter kill and summer drought) which had significant impact on production of all crops last year have not repeated to date giving optimism for return to more typical supplies for domestic and export markets.

General Information:

Wheat – crop performing well, production expected to boost

In 2012 severe drought during the summer continued into the fall preventing or delaying sowing of wheat in many regions. In October soil moisture levels did improve while favorable weather patterns allowed farmers to continue wheat sowing throughout November. According to the data published by the National Statistical Office, the wheat acreage rose by two percent compared to the previous year.

Unlike the previous crop year (2012/13), when a thick winter snow blanket covered the land and later replenished soil moisture, snow cover this year was substantially less. However, significant rainfall in recent months has improved sub-soil moisture in many regions. In addition, temperatures did not drop substantially, so crops were not at a high risk of freezing. Given this mild winter, farmers reported limited winter kill damage, despite the late frost in March. Overall, wheat crop is developing well, with crop production being forecast to increase by 22 percent (please see the chart below), an improved output which is likely to create higher export availabilities.



Source: National Statistics Office, FAS estimates

Wheat exports during the first half of the MY 2012/13 grew by 13 percent reaching 1.6 million MT compared to 1.4 million MT during the same time frame the previous year. Non-EU countries counted for more than half of Romania's wheat exports. Romanian wheat price competitiveness is expected to ensure the trend is maintained in the coming months, although stocks are declining. The major non-EU wheat destinations were Egypt (488,000 MT), Saudi Arabia (57,800 MT), Iran (48,000 MT), Jordan (47,000 MT), Iraq (47,000 MT), South Africa (38,000 MT). Spain (236,000 MT), Portugal (56,000 MT), Italy (141,000 MT) and Greece (65,000 MT) have been the main EU beneficiaries.

Although the half-year data shows an increase, wheat exports are projected to drop at year level to 1.9

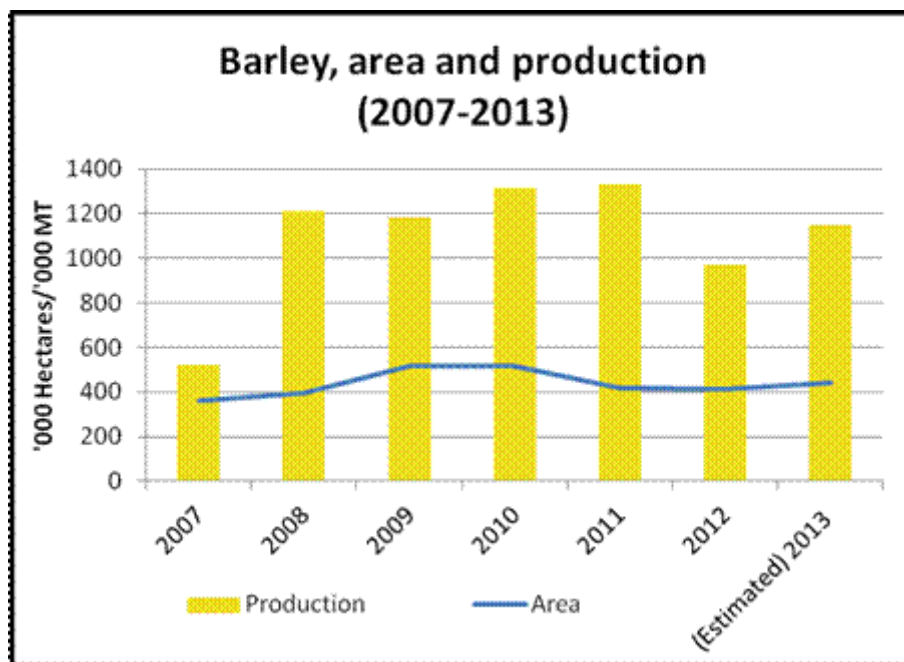
million MT considering the lower domestic availability. Exports are estimated to resume the upward trend in MY 2013/14, when about 2.4 million MT are forecast to be exported. The percentage of exports in the total production fluctuates yearly around 30 – 35 percent, depending on the level of domestic production and Black Sea regional competitiveness.

Barley – crop performing well, stable exports

The acreage sown with barley in the fall of 2012 and two-row barley in the spring of 2013 is estimated to expand by 7 percent compared to last year. Similarly to wheat, barley crop has good prospects this year, yields being projected to increase by 11 percent. Total barley production is anticipated to grow by 19 percent (please see the chart below).

The major winter barley user is the swine industry, while the beer industry is the destination for the two-row barley. Romania is a net barley exporter, as about 50-70 percent of the production is exported yearly, depending on the production level and export opportunities.

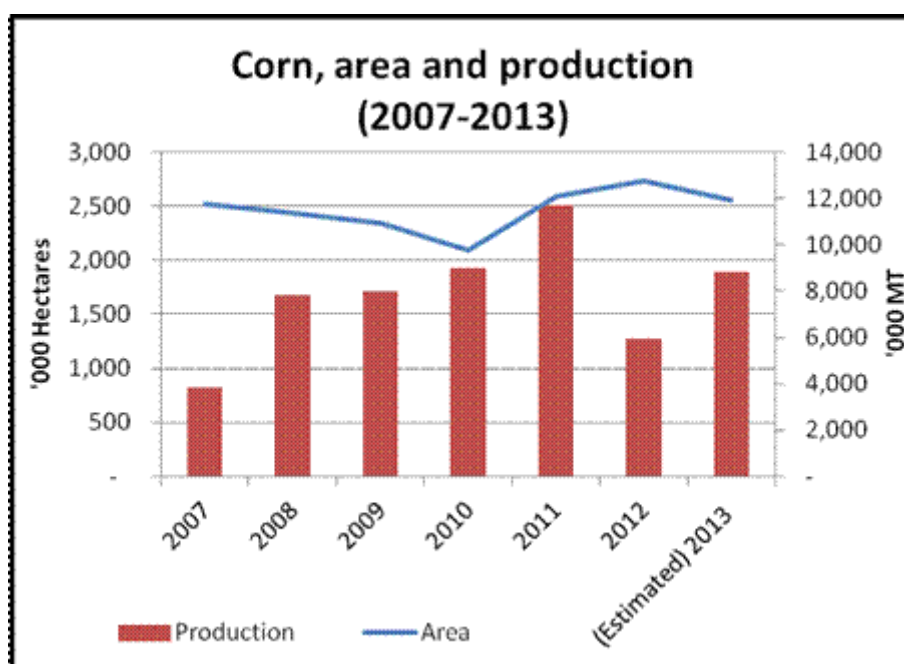
The trade data available for the first six months of the MY 2012/13 indicates an increase of 6 percent in barley exports, 676,000 MT during July-December 2012 compared to 637,000 MT during the same timeframe of the previous year. Saudi Arabia (368,000 MT), Iran (208,000 MT) and Jordan (72,500 MT) accounted for about 96 percent of total barley exports.



Source: National Statistics Office, FAS estimates

Corn – lower acreage, delayed plantings

Corn acreage in the spring of 2013 is expected to decline by 6.5 percent (180,000 HA) compared to the previous year because of lower acreage available for spring crops. Unlike the previous year when major winter kill episodes involving the rapeseed and wheat crops resulting in unplanned acreage availability for spring crops, this year both are developing well. The below-normal temperatures and rainfall during late March and first part of April caused temporary interruptions in soil preparation and planting of corn. Delayed planting does increase the likelihood that plants would be less prepared to cope with higher temperatures and drier conditions during the first part of the summer thus ultimately potentially affect crop yields. However the spring planting window for corn sowing is not over and given current favorable weather patterns field work should continue unabated through the end of April. Corn production is projected this year at 8.4 million MT, near normal, which means an increase of about 40 percent compared to the unusually small crop last year (please see the chart below).



Source: National Statistics Office, FAS estimates

During the summer of 2012 (MY 2012/13), corn yields were considerably affected by the drought and high temperatures, dropping to 2.2 MT/HA from 4.5 MT/HA the previous year. Harvested production dropped from 11.7 million MT in 2011 to 6.1 million MT, about half, in 2012.

Investments made over the past three years in warehouses and silos allowed farmers to retain more crop after harvest for later distribution (spring) when markets offered more attractive prices.

However, with the global prospects for greater corn production worldwide in 2013, domestic market prices have declined about 15 percent in March, relegating farmers to marketing their stocks at a lower margin compared to the situation existing only three months ago.

As a result of the smaller harvest and farmers' reluctance to sell in the fall, exports fell dramatically during the first three months of Marketing Year (MY) 2012/13. The exports only reached one fourth of the volumes exported the previous year (355,000 MT during Oct-Dec 2012, compared to 1.58 million MT the same timeframe of 2011). In terms of export markets, the Netherlands (273,000 MT), Belgium

(45,000 MT), Italy (43,000 MT) and Spain (32,000 MT) were the main recipients from the EU, while South Korea (52,000 MT) and Algeria (16,000 MT) were the major non-EU exports destinations.

For MY 2012/13, corn exports are anticipated to drop to around one million MT, down from 3.5 million MT in MY 2011/12. The lower corn exported volume is the consequence of limited supply, but also negative market reaction to detection of aflatoxin presence in some stored corn. Alerts for aflatoxin presence in corn shipments coming from the South-Eastern Europe, but loaded in Constanta Port, and the recent allegations for above-accepted aflatoxin level in Romanian corn may have deteriorated the image of Romanian corn increasing the reluctance of foreign buyers for old crop commodity. However, exports are forecast to rebound in MY 2013/14 to 2.6 million MT, which would represent an almost triple volume compared to the MY 2012/13 trade.

Inverted Tax on Grains and Oilseeds approaching the end

On May 31, 2013, the “inverted tax regime” approved in June 2011 is to expire. The regime allowed traders to export grains and oilseeds without paying in advance the 24 percent VAT on the exported volume. Romania had requested the derogation from the EU general VAT regime to implement the “inverted tax regime” in order to fight fiscal evasion. The regime is applied to all operators along the chain until the first entity processing the grains (milling). In October 2012 Romania requested an extension on the derogation but was denied. According to recent statements by the Finance Ministry, a second request for derogation has been submitted to the European Commission.

However, in the event of disapproval, a return to the VAT system applied before June 2011 would mean long delays for VAT reimbursements for the grains operators, as the VAT payment is required at the moment of export.

On the same front, the food-industry industry is lobbying for a reduced VAT for all staple foods. So far though only a pilot project for bread is envisaged and arrangements are currently made for its approval. According to Milling and Baking Association, at the end of 2012 fiscal evasion estimated occurring in the milling and bakery sector amounted to USD 300 million, of which one third was linked directly to bread.

Proposal for a Mutual Fund in agriculture

Ministry of Agriculture is establishing a mutual fund, based on the French model, in order to cover farm operations which suffer from natural risks not covered by regular insurance packages. The funding structure would include farmer support (35 percent), European Union budget support (49 percent), and Romanian State budget support (16 percent). Among the risks to be covered: animal disease outbreaks, plant health outbreaks, and environment protection incidents. The idea of a mutual fund has been under discussion for many years, thus farmers are looking forward to having this instrument functional (target date June 30, 2013), especially after the severe drought last summer.